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SUBJECT: SENEGAL'S DONORS GIVE IMF MISSION AN EARFUL

REF: DAKAR 2460

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11. (SBU) SUMMARY: On October 26, a visiting IMF Mission, on its first day in Senegal for Article 4 consultations, invited key donors to present their view of Senegal's economic situation and the policy performance of the Wade Government. The donors highlighted many issues of concern, a number of which have been noted in similar discussions for more than a year. Underlying the frustrations expressed regarding Senegal's economic situation was the consensus that the Wade Administration will postpone difficult policy decisions that might restrict the government's current fungible use of budget allocations until after presidential and legislative elections scheduled for February 25, 2007. This concern was reinforced by President Wade's refusal to sign a long-awaited decree reforming public procurement. Senegal's lack of an IMF program, having completed its previous Poverty Reduction and Growth Facility (PRGF) in April 2006 makes it difficult for some bilateral donors extend new loans to the GOS, compounding Senegal's budgetary difficulties. END SUMMARY.

OLD CONCERNS

12. (SBU) The IMF Chief of Mission, Mr Reza Vaez- Zadeh, opened the session by highlighting the three major themes for the team to examine over the two week consultation:

-- the Wade administration's commitment to policies of economic stability, particularly in the face rapidly increasing budget deficit (and the temptations for campaign-driven public expenditures);

-- the government's program for accelerated economic growth, particularly in light of recent projects that Senegal's 2006 GDP growth could fall significantly below four percent;

-- the need for Senegal to improve its public finance management and rationalize its budget allocations, while facing a budget deficit of a minimum of seven percent of GDP. The final report will be submitted to the IMF Board of Directors and posted in the IMF website in January 2007.

13. (SBU) Vaez-Zadeh asked the assembled donor representatives for their opinions on these and other matters that the IMF team should consider and the donors did not disappoint. Among the issues raised by the donors that have been on the agenda for at least one year were:

-- the continued uncertainty about the GOS' "Accelerated Growth Strategy," which has not yet been finalized, nor have final

consultations with donors been held;

-- the lack of progress between the Government and its Indian partners on negotiations for recapitalizing and restarting Industries Chimiques du Senegal (ICS), Senegal's huge phosphate mining company, which, historically when fully operational, accounts for more than two percent of Senegal's GNP;

-- an on-going lack of transparency on major public works projects, including Dakar's proposed new international airport and the expanded Dakar Corniche road, with the slow pace of construction creating massive traffic problems while draining Senegal's budget;

-- the continued lack of implementation of public procurement reform, and, with President Wade's refusal to sign the current draft, the likelihood of this process restarting from scratch.

MORE RECENT ISSUES

14. (SBU) The donors also raised topics that, while perhaps not new, are compounding Senegal's economic and investment woes. Topping this list are Senegal's on-going energy difficulties, not only with supply and distribution problems, but also the government's apparent retreat to more state control of the sector (as reported in refTel).

Another dynamic that appears to be putting a drag on growth and reform is the fact that public investment in grand projects, without clear accountability, is absorbing much of the country's available capital and diminishing private-sector confidence. The ability of the GOS to create an effective AGS was also questioned, especially given that many of the clusters considered under the AGS are not performing well, including fish, textiles and garments, and tourism.

Finally, deep disappointment was voiced over the apparent total lack of activity by Senegal's Anti-Corruption Commission, despite being established and funded (meeting an important IMF program condition).

AND A BIT OF GOOD NEWS

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15. (SBU) While the overall tone of the meeting was of concern about Senegal's recent economic performance, a couple of positive items were also offered, including Senegal's continued strong performance in the ICT sector and the GOS' apparent commitment to fund improvements at Dakar's Leopold Sedar Senghor International Airport even as it raises funds and makes plans to build its replacement. Another accomplishment under Senegals' last IMF program was the privatization of Sonacos, the country's largest nut and vegetable oil marketer. However, the actual performance of new Sonacos has yet be determined.

NO IMF PROGRAM IS ALSO A PROBLEM

16. (SBU) The other overarching issue raised was Senegal's lack of an IMF program, having completed its previous Poverty Reduction and Growth Facility (PRGF) in April. A number of bilateral donors explained that it is difficult for their governments to extend new loans to the GOS in the absence of an IMF program, potentially compounding Senegal's budgetary difficulties. The IMF Chief of Mission responded that Senegal had not yet requested negotiations on the possibility of a new PRGF or a non-financial Policy Support Instrument (PSI). He noted that the IMF could provide a "letter of support" to encourage bilateral donors to continue their budget support. Vaez-Zadeh added that program negotiations are separate from Article Four consultations, but that he would be willing to discuss the process with the Ministry of Finance. In response to a question on whether a new program could be in place before February's elections, he responded that it is possible if the GOS makes its request soon -- that is, within the next two weeks.

COMMENT

17. (SBU) We share the concerns raised by the donors. Economic performance and reform are both slowing despite a coordinated effort by the IMF, World Bank, and other donors to keep the GOS focused on the steps necessary for positive economic news. While historically

economic issues have not played a major role in national election campaigns, the convergence of so many economic encumbrances is likely contributing to a growing sense of unease among the Senegalese public in the run-up to what will no doubt be a very heated campaign. END COMMENT.

18. (U) Visit Embassy Dakar's classified website at <http://www.state.sgov/gov/p/af/dakar/>.

Jacobs